Scoping a new approach to social value through social investment

Close out report from Phase 3 of the Futurebuilders Learning Project

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Social Investment Business

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Executive Summary

The forthcoming Transforming Public Procurement Bill is set to bring about substantial changes to the UK's public procurement regime, with an explicit commitment to unleash opportunities for small businesses, charities and social enterprises to innovate in public service delivery. This ambition was also emphasised in the recent Levelling Up White Paper, which reaffirmed the Government's commitment to putting social value at the heart of commissioning and procurement.

There is a great opportunity to transform public service delivery through the social economy – including trading charities, social enterprises, community businesses and other social purpose organisations. This paper revisits the role that social investment can play in supporting the social value agenda, using the learnings from SIB's historic funds – like the Futurebuilders England Fund – which aimed to support charities and social enterprises to bid for, win and deliver public service contracts.

The current state of public service delivery by charities and social enterprises.

- **The proportion of all contracts awarded to VCSEs is low and has remained relatively static** – since 2016, VCSEs have accounted for about 5% of Government contracts. This suggests that, despite the introduction of the Social Value Act, there is scope for more to be done on increasing the number of VCSEs accessing government contracts.

- **Local government is the largest public body procuring services with VCSEs**, with around 10% of the contracts awarded by local authorities going to charities and social enterprises. The majority of local government procurement is done with smaller, locally-based VCSEs.

- **There are some sectors with a very high proportion of VCSEs engaging in contracts** – this includes domestic violence and abuse, homelessness, and (to a lesser extent) disability. By value health and social care is the largest sector for VCSEs delivering government contracts.

- **Public contracts are an important income stream for VCSEs, but the share of total income from Government has been static or declining over recent years**. However, it is worth noting that the income from Government contracts proved more resilient during the Covid pandemic and successive lockdowns than other income streams.

- **Public commissioning and procurement have the potential to help deliver to current government objectives to level up the country.** The government spends a vast amount of money each year on goods and services. This can and should be leveraged for greater social, environmental and economic value in ways that benefit places and communities across the UK.

Challenges facing charities and social enterprises attempting to access government contracts

We interviewed eight organisations from across our portfolio, exploring their experience of public procurement. These interviews revealed that there are fewer opportunities for investment in the current context due to the suboptimal commissioning environment.

Key barriers and challenges include:

- A commissioning landscape that does not support organisational growth – there simply aren't the range of contracts available at different sizes to allow for capacity development at a reasonable pace.
- A complex bidding process that does not favour smaller charities and social enterprises.
- Difficulties with joint ventures or engaging in supply chains to access larger contracts.
- Challenges engaging constructively with the local authority or commissioning teams.
- Patchy engagement from local authorities with the social value agenda.

A combination of targeted policy change that facilitates better access to government contracts, alongside patient and flexible investment to develop capacity and capability in charities and social enterprises could turbocharge the delivery of high quality, locally-led public services that support strong, integrated communities.

Social investment to develop contracting capability in charities and social enterprises

From our experience, there are three models that have been shown to be successful in supporting public service delivery through the social economy. Each of these represent creative ways that charities and social enterprises can respond to the changing (and shrinking) commissioning landscape.

Pure Growth Model: This is where an organisation takes on investment as part of a growth strategy. This would build capacity and capability, enabling the organisation to grow by taking on more/larger contracts and expanding their range of services regionally or nationally. However, this has proven to be a less workable option for social investors looking to support charities and social enterprises operating in public markets – especially in the current commissioning environment which does not favour organisational growth. Without significant policy change, there is less scope for achieving this kind of growth strategy through social investment.

Consolidation Group Model: This is where a locally rooted organisation starts small, and then expands and diversifies into providing other services within the same area. This model is suited to a community anchor organisation, which might branch out from a single community space into the management of other local services (e.g. health and wellbeing, adult education and training, or social prescribing) to become a group structure. There is clear alignment between the Consolidation Group Model and place-based investment approaches – although it requires an existing community anchor with the capability and capacity to expand within its local area.

Shared Procurement Approach: This is where a group of charities and/or social enterprises establish some joint venture that would bid for and deliver services as a consortium. This could take two forms: one as a 'social prime' model, where a large social enterprise acts as the prime contractor, which then subcontracts out to a supply chain made up of smaller charities and social enterprises; the other would be a more even joint venture, with similar sized organisations pooling resources together to deliver contracts. These models are suited to raising investment at scale, in ways that does not work for smaller organisations. However, it also requires there to be sufficient contracting opportunities available – which is not necessarily the case given the suboptimal commissioning environment.

Where next?

At SIB, we plan to continue with this work to better understand the contribution that social investment can make in supporting the wider social value agenda. Some key questions for further exploration include:

- How can social investment and commissioning be most effective in driving change at a local level?
- Which models work best in different localities with different market conditions?
- What role could social infrastructure and community assets play in levelling up?

Our intention is to generate more detailed and place-specific models of **what works where** to expand the social economy in public service delivery and drive community change.

1. Introduction

It has been a decade since the introduction of the Social Value Act, the legislation which requires all public bodies to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area in which they operate. In principle, this requirement should support charities and social enterprises bidding for government contracts, ensuring they are able to compete on criteria beyond lowest cost.

From our experience, there are three key elements that help social economies thrive: (i) finance, (ii) support, and (iii) markets. SIB's mission is to provide the first two, but if the third of these – markets – is underdeveloped, then our ability to effectively support the growth and impact of the social economy is diminished. We therefore recognise the vital importance of functioning markets, in particular public markets, for the organisations that we work with. The social value agenda is an essential means of ensuring that this market exists and is accessible to charities and social enterprises.

In reality, the Social Value Act has had mixed levels of success. We have argued previously that it could be broadened and extended in ways that would create a genuine culture of purpose-driven commissioning and procurement – one that accounts for the long-term social, environmental and economic value of public spending.[1] This could provide additional income sources for the social economy to expand operations and generate new, good jobs.

The recent Levelling Up White Paper reaffirmed the Government's commitment to putting social value at the heart of commissioning and procurement. Meanwhile, there are substantial changes to the UK's procurement rules and regulations forthcoming, following the UK's exit from the European Union. As the Government develops a new framework for public procurement, there is a great opportunity to transform public service delivery through the social economy in ways that would help to deliver on the core ambitions of the levelling up agenda.

It therefore feels timely to revisit the role that social investment can play in supporting the social value agenda, using the learnings we've gained from our historic funds – like the Futurebuilders England Fund – which aimed to support contracting capability and capacity in charities and social enterprises.

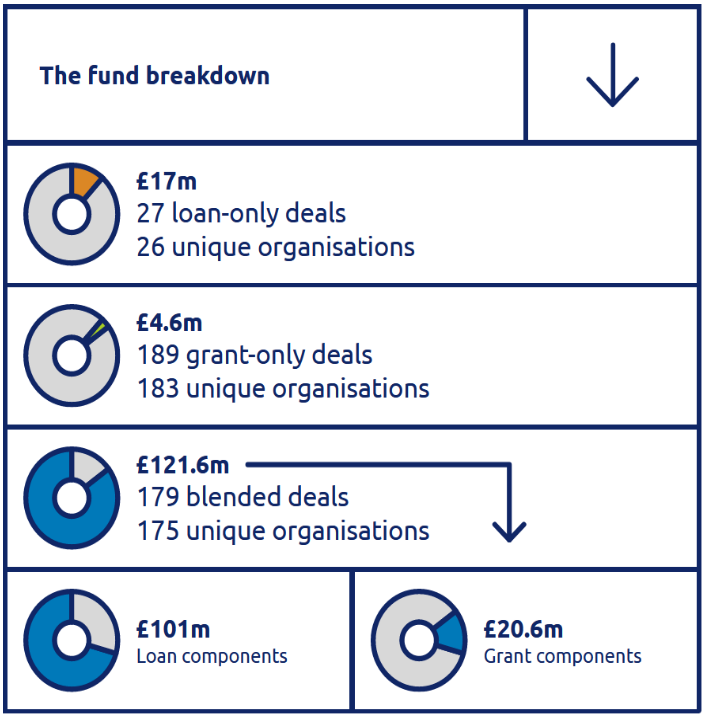
This report closes out Phase 3 of the Futurebuilders Learning Project by evaluating what a new approach to social value could look like; and how social investment could be effectively deployed to support charities and social enterprises accessing government contracts and delivering public services. It combines a mix of desk-based research, qualitative interviews, and quantitative data analysis to:

- (i) assess the policy landscape relating to commissioning and procurement;
- (ii) identify any challenges, gaps and opportunities for charities and social enterprises that are seeking to bid for and deliver government contracts;
- (iii) evaluate the role that social investment can play in supporting the Government's social value agenda.

[1] SIB, Response to Cabinet Office Consultation on Social Value in Public Procurement (2019)

About the Futurebuilders Learning Project

Futurebuilders was a ground-breaking, Government-backed, social investment fund that provided repayable finance to charities and social enterprises in England to help them bid for, win and deliver public service contracts. The fund saw £142 million of loan, grant and blended finance invested into 406 charities and social enterprises between 2004 – 2010.



Since 2019, SIB have been working with the Social Impact Investment team at DCMS on a learning project – funded through repayments from Futurebuilders investments – that focuses on this historic portfolio data to better understand the long-term performance of social investment.[2]

Outputs to date have included:

- Data deep dive & analysis of the portfolio to understand fund performance.
- Market sizing exercise to assess supply-demand multiples
- Variations analysis to understand flexibility
- Financial resilience deep dive & dashboard, including a resilience framework
- Access to Finance Gateway Analysis

Since 2002, SIB have managed a range of social investment funds and support programmes, many of which have been specifically targeted at supporting social sector organisations bidding for public contracts or providing public services. In addition to Futurebuilders, support programmes like the Investment & Contract Readiness Fund (ICRF; 2012 – 2015) and Big Potential Advanced (BPA; 2014 – 2017) were targeted at social sector organisations delivering public services locally and nationally. For reference, ICRF provided support grants to 155 organisations and BPA provided grants to 38 organisations.

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[2] A summary of the learnings to date from the Futurebuilders England Fund can be viewed here. The full data pack from Phase One can be viewed here.

2. Policy context

This section traces developments in procurement policy over the past decade – from the introduction of the Public Services (Social Value) 2012 Act, to the forthcoming changes in the Transforming Public Procurement Bill.

Procurement Policy in the UK

Around a third of public spending in the UK is accounted for by procurement.[3] Up until recently this was governed by EU principles and rules, as well as UK-specific procurement legislation and guidance. The previous EU directives included a set of principles including non-discrimination, free movement of goods, freedom to provide services, freedom of establishment – as well as more general EUCJ principles of law around equality, transparency, mutual recognition and proportionality.

In 2015, the Government implemented new Public Contracts Regulations that were intended to make public procurement more accessible to small businesses, though social enterprises and charities would also have benefitted from amendments.[4] This included hosting all contract opportunities and award notices in one place, eliminating pre-qualification commitments for low value procurements, and requiring 30-day payment terms to flow down the public sector supply chain.

From 1st January 2021 EU laws ceased to apply to the UK, but procurement regulations to date have largely continued to reflect the previous EU rules and principles. New legislation is due to be put before Parliament under the Transforming Public Procurement Bill to create a new commissioning and procurement framework that is aligned with the Government's levelling up agenda.[5]

The Social Value Act

Before 2012, the overarching approach to public sector procurement had been to seek value for money, defined as: *the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought.*[6]

This changed with the introduction of the Public Services (Social Value) Act 2012. This was a Private Members Bill presented to the House of Commons by Chris White MP, which secured cross-party support through parliamentary champions including Hazel Blears MP, Nick Hurd MP, Gareth Thomas MP, Lord Newby and Baroness Thornton – along with the support of Social Enterprise UK.

The Social Value Act requires contracting authorities to consider how the proposed procurement (of services) might improve the economic, social and environmental well-being of their area, and how these might be secured. The intention being to use the power of public spending as a force for social good, alongside considerations around value for money.

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[3] Institute for Government, Government procurement: the scale and nature of contracting in the UK (2018)

[4] Crown Commercial Service, Public procurement policy (2021)

[5] Cabinet Office, Transforming public procurement (2020)

[6] Crown Commercial Service, Public procurement policy (2021)

After varying levels of take up and mixed successes, the Government consulted on broadening and strengthening the Social Value Act in 2019. This proposed extending the remit of the Act, so that social value would apply to *all* government tenders, including goods, works and services, and that commissioning authorities would be required to 'account for' (rather than simply consider) the social value that is generated from their procurement practices.[7]

A new Social Value Model was introduced in January 2021. This provides a standardised framework for delivering social value through the Government's commercial activities. The Social Value Model now applies to all new *central* government procurement (including executive agencies and non-departmental bodies). The model is articulated in policy themes and outcomes; acting as a 'menu' for contracting authorities to select those areas that are relevant and proportionate to their procurement. A 10% weighting is given to social value in the total score – although this can be higher if deemed appropriate.[8]

This new Social Value Model does not apply to local authority procurement. At a local level there is more of a mixed picture, with varying levels of uptake and enthusiasm for the social value agenda. Some local authorities like Bristol and Manchester have produced comprehensive social value statements and are leading the way with innovative local commissioning and procurement practices; whereas others have been slower to make headway – a survey carried out by SEUK in 2019 found that only 45% of local authority respondents reported having a social value policy.[9]

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[7] Cabinet Office & DCMS, Social value in government procurement (2020)

[8] Government Commercial Function, The Social Value Model (2020)

[9] SEUK, Front and Centre – putting social value at the heart of inclusive growth (2019)

Local Government Leading the Way with Social Value

Bristol City Council has published its Social Value Policy that goes beyond the limitations of the Social Value Act to ensure that social value is included in everything it does, linking economic and social growth with maximising the value obtained from money spent. As a starting point, 20% of the overall assessment score for a procurement decision is allocated to social value alongside the traditional price/quality split. There is also the aspiration to spend a higher proportion of the procurement budget with micro, small, medium sized businesses and organisations, as well as the VCSE sector, through the supply chain – in 2019 this was around 52%.[10]

Rochdale, Stockport, Tameside and Trafford Councils all use the award-winning STAR shared procurement service which maintains a 15% weighting for social value as a guide, but it is proportionate to the contract being tendered. In 2020, this secured 25% of contract value in Social Value, equating to over £31m of Social Value delivered, half of this was delivered by local organisations in Greater Manchester – on average, they maintained a weighting of 20% on average in all procurement.[11]

Manchester City Council (and the Greater Manchester Combined Authority) have mandated a minimum of 20% weighting for social value in all procurement. As a result of their approach, 71% of the council's total procurement spend in the year 2016/17 was with Manchester-based organisations, 59% of which went to SMEs, generating an estimated 705 apprenticeships and 423 opportunities for 'hard to reach' individuals.[12]

Liverpool City Council is set to make significant changes to the way it designs projects and contracts for suppliers. The Mayor has recently endorsed the social value agenda, claiming that it will be core to delivering the Liverpool City Plan.[13] This plan states that the council will develop a coordinated approach to making originations and sectors more purpose driven, to maximise opportunities for community wealth building, and to achieve greater social value from spending and procurement.[14]

A New Framework: Transforming Public Procurement

The forthcoming Transforming Procurement Bill will aim to speed up and simplify procurement processes, with a focus on value for money and expanding opportunities for small businesses, charities and social enterprises to engage in, and innovate, with public service delivery.[15]

In the Transforming Procurement Green Paper, which went through a public consultation process in December 2020, the Government said it would enshrine in law the following principles for public procurement: public good, transparency, integrity, efficiency, fair treatment of suppliers and non-discrimination. Notably for the social value agenda, the first

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[10] Bristol City Council, Social Value Policy (2021)

[11] STAR Procurement, STAR Social Value success: 'A year on' (2020)

[12] CLES, Manchester City Council Spend Analysis (2016/17) (2018)

[13] Liverpool Express, Mayor Joanne Anderson on the transformative benefits of embedding social value into council contracts (2022)

[14] Team Liverpool, cityPlan for Liverpool (2021)

[15] Cabinet Office, Transforming public procurement (2020)

principle specifies that procurement should *support the delivery of strategic national priorities, including economic, social, ethical, environmental, and public safety*.[16]

The new procurement regime aims to reduce complex regulations and create a simple procedure that will encourage more diverse supply chains and new market entrants (including charities and social enterprises). The Bill is expected to be put forward during the current Parliament but, given the scale of the changes, and the expected roll out programme of learning and development to meet the needs of stakeholders, the new regime is unlikely to come into force until 2023.

Levelling up through social value

The recent Levelling Up White Paper reaffirmed the Government's commitment to putting social value at the heart of commissioning and procurement, explicitly stating that the new procurement framework will 'make it easier for small businesses and social enterprises across the country to bid for and win public contracts.'[17]

The Government has set ambitious targets for levelling up the country, and the White Paper makes a strong case for systemic public sector reform through: enhanced Government decision-making with better data; empowered local leadership through devolution; and a mission-oriented approach to policymaking. Achieving these ambitious goals will not only require creative thinking, including a greater integration between public, private and social sector spending but – most importantly – delivery.

This is therefore a critical moment to be revaluating the potential of the social value agenda to transform public services – ensuring closer alignment between public spending on goods and services, and the desired social outcomes set out in the Levelling Up White Paper.

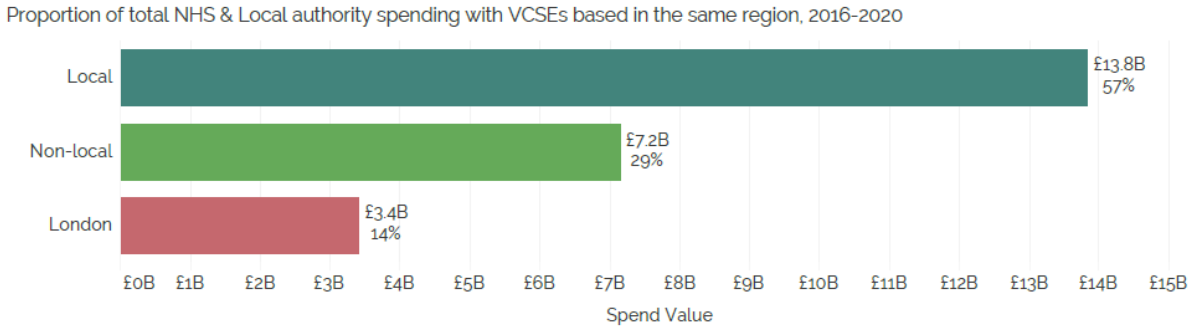
The next chapter assesses the current state of public service delivery by charities and social enterprises.

[16] The Government clarified in its response to the consultation that the concept of 'public good' would be framed as an objective of maximising the 'public benefit' to support wider consideration of social value benefits and address concerns about any conflict with local priorities.
[17] DLUHC, Levelling Up White Paper, p 126 (2022)

3. The current state of public service delivery by charities and social enterprises

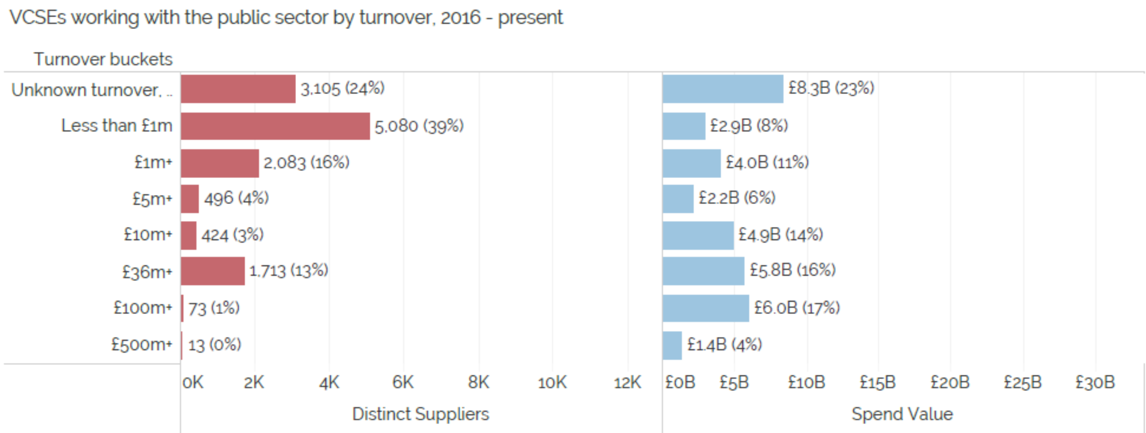
A recent report for DCMS analysing the scale and proportion of UK public sector procurement conducted through VCSEs between 2016 – 2020 provides since some insight on the current state of public service delivery by VCSEs.

Between April 2016 and March 2020 VCSEs have won 7,330 contracts worth £17bn – only 5% of the total value and volume of contracts awarded.[18] Local government awards significantly more contracts to VCSEs by value and volume than other parts of the public sector – in 2019/20 they spent £5.5bn, or 10% of their total spend with non-government organisations. The NHS and local government award a majority of their contracts to locally based organisations – 57% of their spending with VCSEs goes to organisations based in the same region as the authority.



Source: Tussell

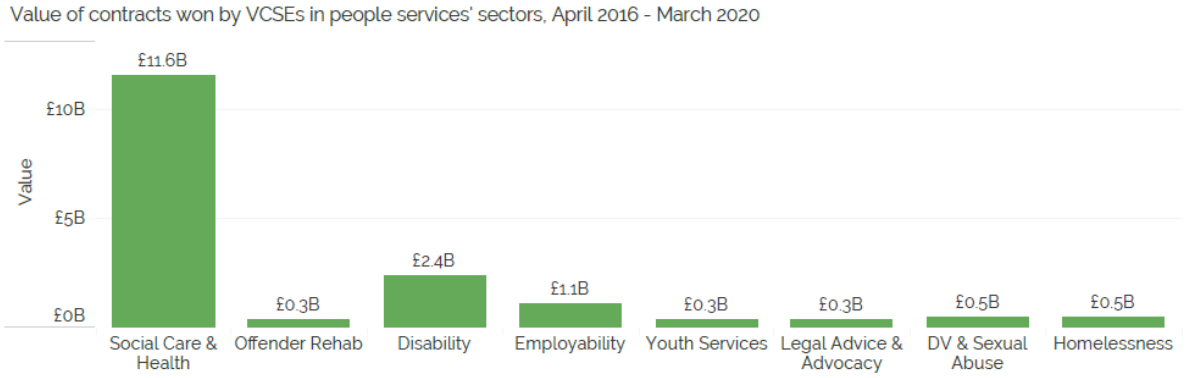
Charities make up the vast majority (82%) of the VCSEs awarded government contracts. Large organisations (turnover over £36m) make up only 14% of the total VCSEs active in public procurement, but account for over a third (36%) of total public spending on VCSEs.



Source: Tussell

[18] This figure is likely to be unrepresentative of social enterprises. While charities can be easily identified through their charity number, social enterprises can come in many different forms or legal structures. In the Tussell report social enterprises are only identified when they have 'Community Interest Company' or 'CIC' in their name – they are therefore likely to be underreported.

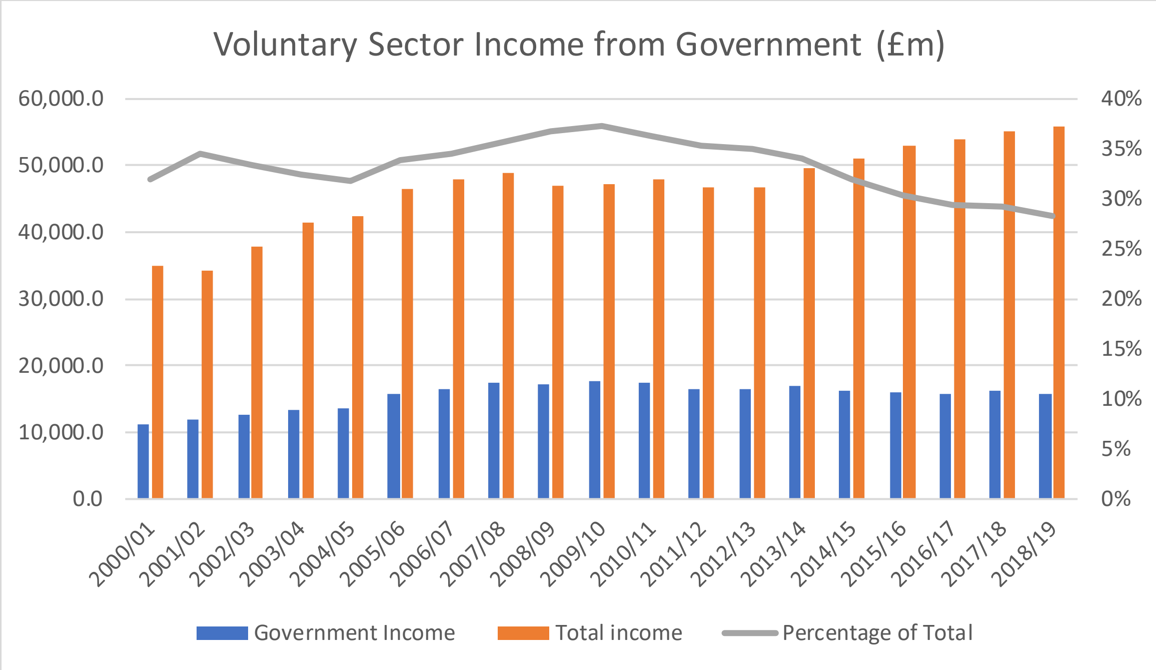
Social Care and Health is the largest sector for VCSEs winning contracts by total value, at £13.9bn – this constitutes 23% of the total value awarded in this sector. However, other sectors see a much higher proportion of the contracts won by VCSEs, particularly domestic violence and sexual abuse (66%) and homelessness (69%).



Source: Tussell

The 2021 State of Social Enterprise Survey found 51% of social enterprises traded with the public sector, a share that has remained static since 2017. Nearly two thirds (65%) of social enterprises trading with the public sector get their income from local authorities, while 28% of social enterprises said that they trade with central government.

According to the 2021 Civil Society Almanac, the voluntary sector received £15.8bn from Government contracts and grants in 2018/19 – this amounts to 28% of its total income, the lowest share of total income from the Government sources since the data was published in 2000/01, representing a shift toward other income sources.



Source: Civil Society Almanac

There have been several reports exploring the structural barriers that charities and social enterprises face when trying to access government contracts:

- A 2016 report from The Lloyds Bank Foundation found multiple barriers, including: a lack of understanding of the service they are procuring for; a trend toward larger contracts that small to medium charities cannot bid for; and excessive application requirements with short turnaround times.[19]

- A 2019 paper by Pain & Macmillan presented four case studies to illustrate the difficult commissioning environment for charities and social enterprises, including: the high levels of resource needed to successfully bid for, deliver, and sustain contracted services; alongside the complicated set of relationships that needed to be maintained with different commissioners, with varying levels of engagement.[20]

- A 2021 report by NCVO, ACEVO and The Lloyds Bank Foundation further highlighted how charities have negative experiences as subcontractors once they have been successful on a bid, including power imbalances with larger lead organisations, who may withhold work or disenfranchise smaller charities.[21]

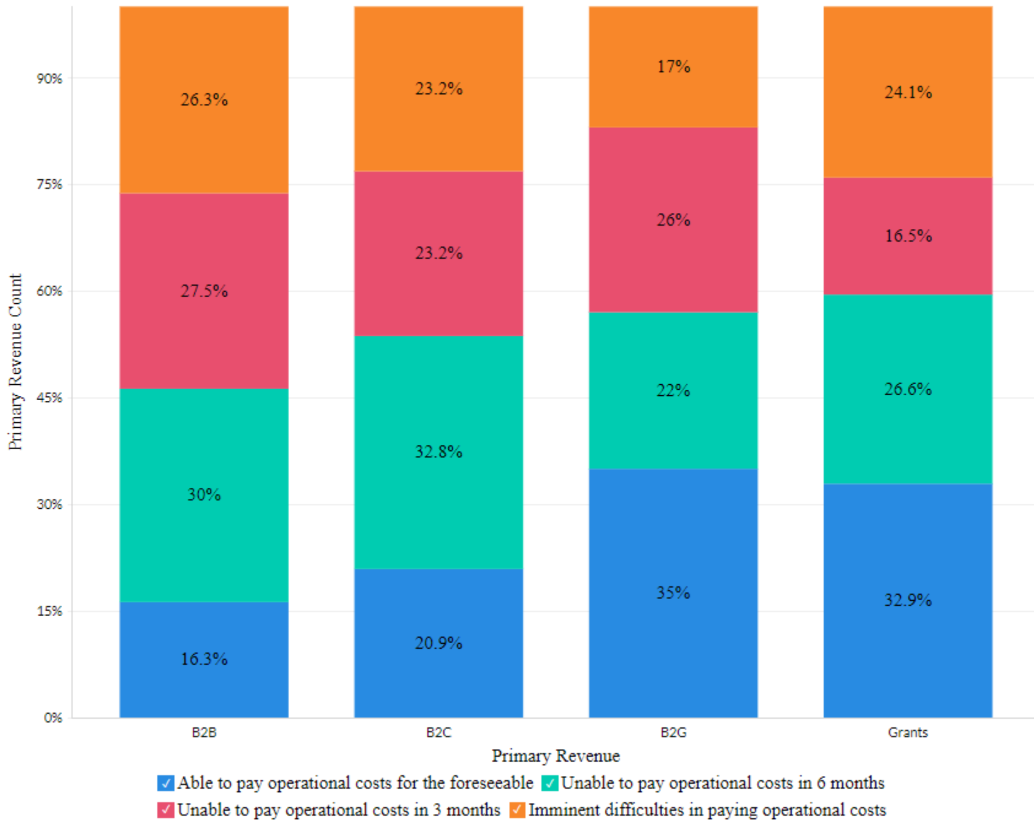
[19] Lloyds Bank Foundation, Commissioning in Crisis (2016)
[20] Paine & Macmillan, Third Sector Research Centre Working Paper 145 (2019)
[21] NCVO, ACEVO, Lloyds Bank Foundation, Rebalancing the Relationship (2021)

Covid and public contracts

The APPG on Social Enterprise inquiry into the impact of Covid on social enterprises found that commissioners were able to take a more flexible approach to working with social enterprises which helped the sector to maintain services and financial sustainability. However, it also heard that many of the barriers facing social enterprises accessing public contracts remain in place.[22]

It seems that contracting income fared better during the pandemic as organisations were still able to continue with their service delivery, and in some cases the need for services increased dramatically. This, alongside an increase in flexibility provided by commissioners, enabled organisations to maintain some financial stability during the pandemic.

In March 2020, SIB began collecting data on the impact of Covid on the income of the organisations across our portfolio. We found that 35% of organisations whose primary revenue was Business to Government were able to pay their operational costs for the foreseeable, compared to 33% of organisations that primary revenue was grants, 21% for Business to Customer and 16% Business to Business.



Source: SIB

Organisations that relied predominantly on trading models found their income decimated by the national lockdown and restrictions – in contrast to those that had access to government contracts or could access the multiple emergency grant programmes.

[22] APPG Social Enterprise, Rising to the Challenge (2022)

In summary:

The proportion of all contracts awarded to VCSEs is low and has remained relatively static – since 2016, VCSEs have accounted for about 5% of Government contracts. This suggests that, despite the introduction of the Social Value Act, there is scope for more to be done on increasing the number of VCSEs accessing government contracts.

Local government is the largest public body procuring services with VCSEs, with around 10% of the contracts awarded by local authorities going to charities and social enterprises. The majority of local government procurement is done with smaller, locally-based VCSEs. Interventions to facilitate charities and social enterprises accessing local government contracts are therefore likely to have a larger impact on the sector than central government.

There are some sectors with a very high proportion of VCSEs engaging in contracts – this includes domestic violence and abuse, homelessness, and (to a lesser extent) disability. By value, however, health and social care is the largest sector for VCSEs delivering government contracts. This not only points to areas where already high levels of VCSE service delivery can be broadened and strengthened, but also potential sectors where there could be a market gap to innovate with new models of delivery through the social economy.

Public contracts are an important income stream for VCSEs, but the share of total income from Government has been declining over recent years. This is in part due to a suboptimal commissioning environment which presents significant challenges for smaller charities and social enterprises looking to take on contracts. There are some recurring issues that have been identified as barriers – including lack of capacity and resources that make it harder to compete, as well as a shift toward commissioning for larger contracts that are inaccessible to smaller organisations. However, it is worth noting that the income from Government contracts was more resilient during the Covid pandemic and throughout the successive lockdowns than other income streams – highlighting the importance of charities and social enterprises having a plurality of income streams.

Public commissioning and procurement has the potential to help deliver to current government objectives to level up the country. The government spends a vast amount of money each year on goods and services. This can and should be leveraged for greater social, environmental and economic value in ways that benefit places and communities across the UK. A stronger social value agenda could play an integral role in strengthening social economy supply chains – particularly at the local government level, where the majority of VCSEs are bidding for and winning contracts. This would help to build stronger, more resilient social infrastructure that meets the needs of local people.

The next chapter explores the current gaps, challenges and opportunities relating to charities and social enterprises that are bidding for and delivering public services.

4. A new approach to commissioning and procurement

We spoke with 8 organisations whose primary income comes from Business to Government Contracts – of varying sizes, ages and locations – from our wider portfolio (successful and unsuccessful applicants to our funds). These interviews explored their experience of the current commissioning and procurement landscape; with a view to better understanding how social investment can be deployed to support organisational growth through bidding for and delivering public services.

#	Description	Location	Scale of Delivery	Legal Structure	Year Established	Size	Turnover	Staff
1	Land-based day facility offering a range of activities, experiences and support services to improve health, wellbeing and opportunities for all.	Somerset, South West	Regional	Community Interest Company Limited by Guarantee	2018	Micro	Unreported	2
2	Delivers support and intervention to older men of Afro-Caribbean heritage who have experience of substance misuse, mental health issues or the criminal justice system.	Hackney, London	Local	Community Interest Company Limited by Shares	2019	Micro	£270,000	7
3	Provides health and wellbeing support to vulnerable adults	Havering, London	Regional	Charity/ Company Limited by Guarantee	1949	Small	£1,200,000	41
4	Uses the arts to provide specialist respite care and help improve health, social and educational outcomes for participants with complex needs.	Leicester and Nottingham, East Midlands	Regional	Community Interest Company Limited by Guarantee	2013	Micro	Unreported	7
5	Delivers support and intervention to young people through youth clubs, education, and mental health services.	Cheshire, and surrounding areas, North West	Regional	Charity/ Company Limited by Guarantee	1952	Mediu m	£2,400,000	72
6	Provides mental health support through art psychotherapy and creative activities, to support physical, social and emotional development.	North Kensington, London	Local	Community Interest Company Limited by Guarantee	2017	Small	Unreported	15
7	Wellbeing social enterprise specialising in public health and social care contracts	Manchester, North West	Local	Industrial Provident Society	2008	Small	£1,400,000	49
8	Delivers art services to the local community to their mental and physical wellbeing and quality of life	Doncaster, Yorkshire and the Humber	Local	Charity/ Company Limited by Guarantee	1990	Small	£780,000	26

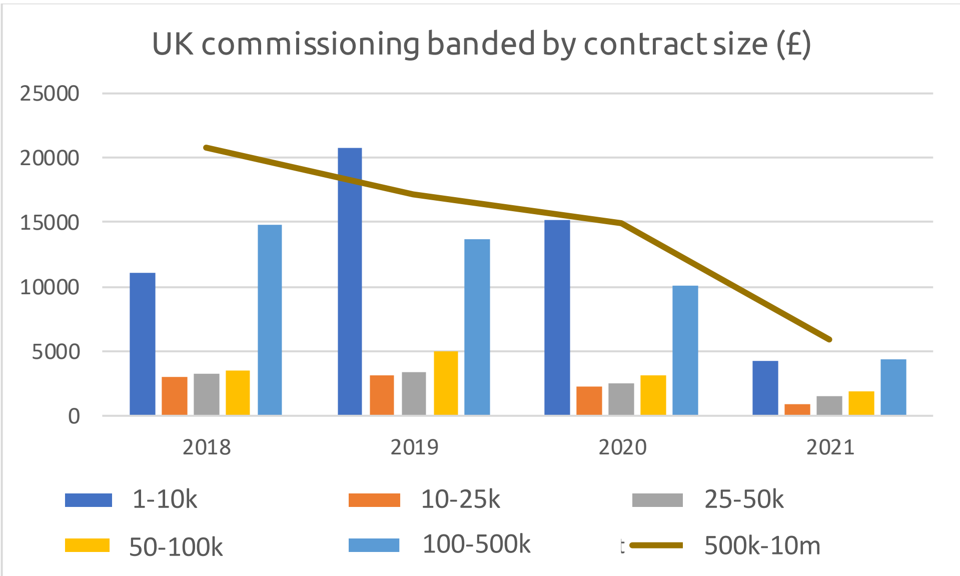
These interviews highlighted a familiar set of issues, barriers and challenges facing charities and social enterprises attempting to access government contracts.

The current commissioning landscape doesn't support organisational growth

For the most part, there simply aren't the range of contracts available to help organisations grow through delivering public services. Our analysis of national contracting data shows that commissioning is not graduated. Rather, there are large numbers of very small contracting opportunities, and many large value contracts but few that could be classed as supporting growth by allowing for capacity development at a reasonable pace. National procurement data from the Spend Network shows this U-shaped distribution clearly.

Source: Spend Network

Banding all contracts above £500k together shows this U-shape even more clearly, and also highlights the drop in available commissioning contracts over the last four years (the graph below shows only partial data for 2021):



Source: Spend Network

This makes it difficult for smaller organisations to pursue growth strategies through winning contracts, as there is little available to help them scale up from small to midsized delivery. This finding was echoed in the interviews. Some organisations felt that appetite for commissioning and the normal flow of opportunities has been disrupted by various factors over several years.

> *There hasn't been much contracting activity since 2015… there's been a combination of Brexit and several different elections, so that slows down procurement; and with the changes that are happening, especially in health... there has been a much smaller appetite for commissioning.* **Organisation 7**

The organisations delivering smaller contracts found that these would be up for renewal or retendering every 12-18 months, making strategic planning more difficult. For example, one interviewee noted: *"We lived off of these quick contracts, and what we recognised is that they are a quick burst [of funding] but you can't plan, you can't be strategic.'* (**Organisation 2**).

We were also told of issues around a lack of visibility and/or lead time for contracting opportunities that made the bidding process challenging – particularly when approaching the end of the financial year.

> *Contracting from a local authority is notoriously difficult [because] they don't know what budget they will have in the long term… A frustration is [when local authorities] realise they have got some funding and need it out of the door. You have a mad scramble for what you want to do, trying to match it with our strategy… that's not helpful. In those circumstances, [the contracts] are less than 12 months and it's not the best for use of funding and very stressful.* **Organisation 5**

The cost of delivery and slim margins were exacerbating these difficulties. In one interviewee's words *"[The value of the contract] never matches the costs and we have to constantly fight for other funding."* (**Organisation 6**). One organisation told us that their core contract hadn't had an uplift in 10 years; another said that they used to earn £700k in government contracts but they have lost all of these over the last five years. It has meant that they have had to diversify their business model away from contracts to other forms of earned income.

One organisation, who had previously received a Futurebuilders loan, noticed the changes in the commissioning landscape after they took on that investment, highlighting the increasingly restrictive margins for service delivery:

> *It's more about the money. If I go back to 2004/2005, the level of investment for any given piece of work was way higher than something that I can conceive now. When I think about the contracts, we worked with them on development and then were successful on tendering… [there was] room for you to test and develop, for you to improve and develop… [with] the small amount of tendering that is available at the moment, we are choosing not to go for it as the amounts are so small – it's just not sustainable practice.* **Organisation 8**

The bidding process does not favour smaller charities and social enterprises

The bidding process was widely felt to be burdensome, bureaucratic and resource intensive – which could be off-putting for smaller charities and social enterprises. This was highlighted in several interviews:

> *It doesn't make sense to have a cumbersome, difficult mechanism. It would have put off a lot of organisations off who would even attempt it.* **Organisation 3**

> *Sometimes it's difficult because the forms... [which are] worded in a way that is hard to decipher. The questions are not as easy to understand. They know what they are looking for but don't make it clear when you have to fill it in.* **Organisation 1**

The bidding process could also be very inconsistent, even within a single local authority or government department. One interviewee shared their varying experiences bidding for similar sized contracts with a central government department: one was light touch bid involving a two-page document and a phone call, whereas a second bid was highly resource intensive, requiring a 50-page tender.

An overarching problem, particularly for smaller organisations, was the lack of capacity and confidence in writing bids and responding to multiple tenders. This is a structural disadvantage that smaller charities and social enterprises face: a resource intensive bid could require several senior staff members to be taken away from day-to-day delivery to concentrate on drafting a bid. Larger organisations, on the other hand, will often have professionalised bid writing teams that understand the system and are able to respond to tenders as they arrive. This competitive disadvantage was noted in several interviews:

> *For many opportunities, bidders are only given two or three weeks from the issue of the RFP to the submission of a response. Most social enterprises don't have dedicated proposal resource, so responding in time is a challenge.* **Organisation 2**

> *We are put into competition with more business-like models. Organisations that have access to a lot of robust data… as a community-based organisation cannot compete with that.* **Organisation 6**

Joint ventures or engaging in supply chains can be helpful – but also have drawbacks

Given the paucity of contracting opportunities (at an appropriate size) available, we heard that organisations had explored joint-ventures or been engaged as a subcontractor with a larger prime organisation. This was a way that smaller organisations were able to take part and generate income from larger contracts. For example: *"We don't have the financial turnover to bid for some of those bigger contracts, so that limits us… We are now bidding on London contracts with large national charities"* (**Organisation 2**).

There were some issues with engaging in a bid as part of a supply chain with a larger prime contractor. One interviewee told us that they were wary that their organisation could be used as 'bid candy' – where they might be involved in a bid purely based on the optics. This had happened in cases the commissioners were explicitly looking for unique or grassroots organisations to be involved in a supply chain. **Organisation 2**, a BAME-Led organisation highlighted this claiming *"What you will find is the bigger players quite often will look for exciting small players that make their big look good"*. Another organisation felt that prime contractors often lacked the commitment to maintaining a good relationship with subcontractors: *"The larger organisations are very difficult to work with because they are not interested in partnership and they just want to do it themselves."* (**Organisation 3**)

In these subcontracting relationships, the larger organisations still hold all the influence over service delivery, and there is no guarantee that a smaller organisation will get what they need from the partnership. Some interviewees aspired to become a lead contractor and work in a joint venture with smaller organisations. It was viewed as an area of growth that was achievable in the current commissioning landscape, particularly when being a sub-contractor held several disadvantages.

> *We would like to be masters of our destiny and a lead on a contract. Where we have been a delivery partner [through an] intermediary, we found that we have been subject to the vagaries [of the intermediary], so if they didn't like us that month [or] if they have their favourites in a supply chain, we would get our numbers taken off us without notice… But the overall contracting organisation is not interested in any of that… We*

> *would like to be the lead on that but we have some work to do concerning organisational maturity and the infrastructure [needed] to do that.* **Organisation 5**

In the interviews, we were told about different creative ways that the social economy had responded to the changing commissioning environment. One interviewee had tried to innovate with a joint venture approach (**Organisation 7**) – they joined together as consortium of 10 social enterprises (with a combined turnover of £53m) to establish a Limited Liability Partnership that would jointly bid for contracts. However, in the following five-year period, only two contracts had been put out – at a value of £160k. We were also told about the potential for establishing a 'social prime' – an organisation that could act like a social enterprise Serco and subcontract out on better terms to support growth in smaller organisations and strengthen social economy supply chains.

Both approaches could have potential but, as our interviews have made clear, there are some more fundamental issues with commissioning and procurement that make these less viable.

A good relationship with councils and commissioners is important

The majority of the organisations we spoke to have a close relationship with their local councils or commissioning teams. This helps navigate the maze of opportunities that were available. One interviewee stated, *"If you build the right relationship, you can build that trust*." (**Organisation 1**). This was reiterated by another who said, '*It's all about relationship building. I get more work from the commissioners that we've taken the time to really understand each other.* " (**Organisation 4).**

Often these organisations suggested that lacking longevity or a strong 'track record' was a barrier to engaging with the local authority.

> *We are respected and trusted because we have been around for 30 odd years. We started as part of the LA and, even though we have been independent for 25-27 years, because we were one of them, that [relationship] has continued throughout. The way we work as a team… we are having strategic conversations at all levels with the local authority, with the NHS and all of those key partners.* **Organisation 8**

Relationship building is not always an easy process. Time, resources, and connections are needed to ensure these relationships are maintained. Open outreach and relationship building by local councils is limited and instead, the organisations we interviewed felt they needed to put work into gaining respect and legitimising their value and service quality. For example, *"We have had to fight tooth and nail for them to understand [our value]"* (**Organisation 6**). The time and capacity needed to build these relationships can wear thin when organisations were working across several local authorities. For example: *"Because we work across 6 local authorities, it's quite difficult to have great working relationships across all of those* " (**Organisation 5**).

There was a sense that commissioners should be more open to consultation or co-design of services with the local social sector, which would help to bring out the benefits of locally-led, high quality public services. One interviewee noted that barriers to entry as a smaller organisation sometimes felt artificial – and that if there was someone with a position of influence in the council that wanted to make something happen then it would. Their home council had been very supportive of the work they did and had made it particularly easy for them to partner, removing obstacles for a smaller organisation bidding for the contract.

That local authority has been really active in supporting what we do and as a result made decisions that make it easier for us to partner. They have taken out obstacles. They've made it really simple and it's worked. What I have learnt is that partnerships are very much built in positions of influence who actually want to make something happen or less interested in making something happen. So the barriers are artificial as its more about what people want to come together. **Organisation 2**

The experience above demonstrates the uneven power relationship between commissioners and the individual providers, resulting in inconsistent experiences for an organisation dependent on connections, capacity to build relationships and buy in from senior individuals in the commissioning teams.

Engagement with social value agenda is patchy and inconsistent

We found that half of the organisations we spoke with were not aware of the Social Value Act, or any recent changes to procurement rules. This could be explained by the varying levels of engagement that local authorities had with the social value agenda. From our interviews, it was clear that some councils simply didn't engage at all with social value in public procurement – in these cases, the perception was that price is the key determining factor in assessing bids. One organisation thought the focus on lowest price was itself a consequence of the challenges that commissioners were facing as a result of austerity: "*[the councils aren't engaging] in reality – not when their budgets have been slashed over the past 12 years*" (**Organisation 4**).

There were some examples of councils who had made social value explicit in their commissioning – Wirral, Manchester and Hackney were all mentioned. Where councils did engage, it was perceived as helpful in levelling the playing field for charities and social enterprises.

There is a hugely positive attitude to [including] the voluntary sector in delivery – particularly in the local authority and the NHS. The local authority and NHS are both well joined up and are working on this locality model; and they really want to see grass roots organisations and community sector organisations take a part in that. **Organisation 8**

There was also evidence that central government's new Social Value Model was making an impact. One interviewee had noted that Ministry of Justice tenders were now explicitly looking for more diverse-led providers, which they felt had made their bid more advantageous.

The strengthened social value agenda was seen as something that would support charities and social enterprises bidding for contracts. However, the smaller organisations we spoke to – particularly those that weren't aware of the social value act – echoed similar concerns about the bidding process and how they could compete against larger organisations: given their limited resources, they were unsure of how they would evidence social value, without it being an additional burden in the overall bidding process.

There are fewer opportunities for investment in the current context

It became clear over the course of these interviews that there are internal and external challenges facing charities and social enterprises that are bidding for and delivering public services.

Internally, there are issues around *confidence*, *capacity* and *capability* – and this is particularly the case for smaller organisations. These challenges are exacerbated by a procurement process that is complex, onerous, and structurally favours larger organisations with the resources and internal capacity to dedicate to responding to new tenders.

Externally, the current commissioning landscape simply does not support organisational growth. There are not enough contracts at an appropriate size for an organisation looking to scale up operations – locking them into low value contracts and short-term service delivery. Where there are larger contracts, smaller charities and social enterprises can only engage as part of the 'prime contractor' supply chain, which creates a power imbalance that doesn't support steady organisational growth or resilience.

Although some of the organisations we spoke to had taken on social investment in the past, none of them saw taking on further investment as a means to unlocking more contracting opportunities in the current circumstances.

The issues highlighted in the interviews could not be solved by finance alone. Social investors could, for example, provide funding to develop organisational capacity, such as business development or bid writing resource; or they could finance a joint venture to take on contracts at a larger scale. However, neither of these are sufficient interventions if substantial policy change is needed elsewhere to support VCSE public service delivery.

The table below summarises the set of barriers and challenges that charities and social enterprises face when engaging in the public procurement process.

Barrier	Why this creates a suboptimal commissioning landscape for charities and social enterprises
Commissioning landscape doesn't support organisational growth	● There is a U-shaped distribution in the size of contracts available, this means there are few midsized opportunities for smaller organisations looking to scale their service delivery. ● Local authority budgets have been shrinking over the past decade, meaning that the value of a contract often doesn't accurately reflect the cost of delivery.
Bidding process does not favour smaller charities and social enterprises	● Smaller organisations often lack the confidence, capability and capacity to bid for contracts – especially in situations where the bidding process can be complex, inconsistent and/or disproportionately onerous. ● The complex bidding process gives a structural advantage to larger competitors who might have dedicated bid writing teams and internal capacity to respond to multiple tenders.
Difficulties with joint ventures / engaging in supply chains	● There is a power imbalance between prime contractors and the subcontractors in their supply chain. This means that smaller organisations are reliant on the prime contractor for work but may subsequently be ignored or squeezed out once the contract has been won. ● Joint ventures might offer opportunities for providers to bid on an equal pegging, but these are only viable if there are sufficient contracting opportunities of an appropriate size – something that is increasingly scarce in the current commissioning landscape.
Relationship with the local authority / commissioners	● Local authorities have their own issues around capacity which makes it harder for them to engage properly with the local social sector. Closer working between commissioners and local providers would allow for better co-design of services – but local authority budgets have shrunk, along with the size of commissioning teams, and there is less scope for this kind of joint working.
Patchy engagement with social value agenda	● The majority of VCSEs are engaging in public procurement at the local authority level. The Social Value Act has recently been strengthened, but the new measures only apply to central government. ● This means that local authorities are currently not made accountable for using social value more strategically; there are no robust reporting or audit processes, nor is there a mandatory minimum weighting for evaluating social value in the awarding of contracts. This leads to a varying experience and postcode lottery for different charities and social enterprises trying to bid for and deliver local services.

There is great potential to transform public service delivery through the social economy, but the commissioning and procurement landscape needs to change significantly in order to achieve this. Indeed, the data from Tussell suggests there is more that can be done to increase the current level of public service delivery through VCSEs.

A combination of targeted policy change that facilitates better access to government contracts, alongside patient and flexible investment to develop capacity and capability in charities and social enterprises, could turbocharge the delivery of high quality, locally-led public services that support strong, integrated communities.

The next chapter explores the role that investment and support can play in supporting this ambition.

5. The role for social investment

Futurebuilders was an early example of social investment being used to develop contracting capability in the social economy; more recently Social Impact Bonds and Outcomes Contracts have been set up to achieve similar results – though arguably they have not achieved the levels of success outlined for them by Government when they were first introduced.[23] We think there is a space between these two models for something new – using learning from across the sector to develop a future model that strengthens social economy supply chains and facilitates access to both public and private markets.

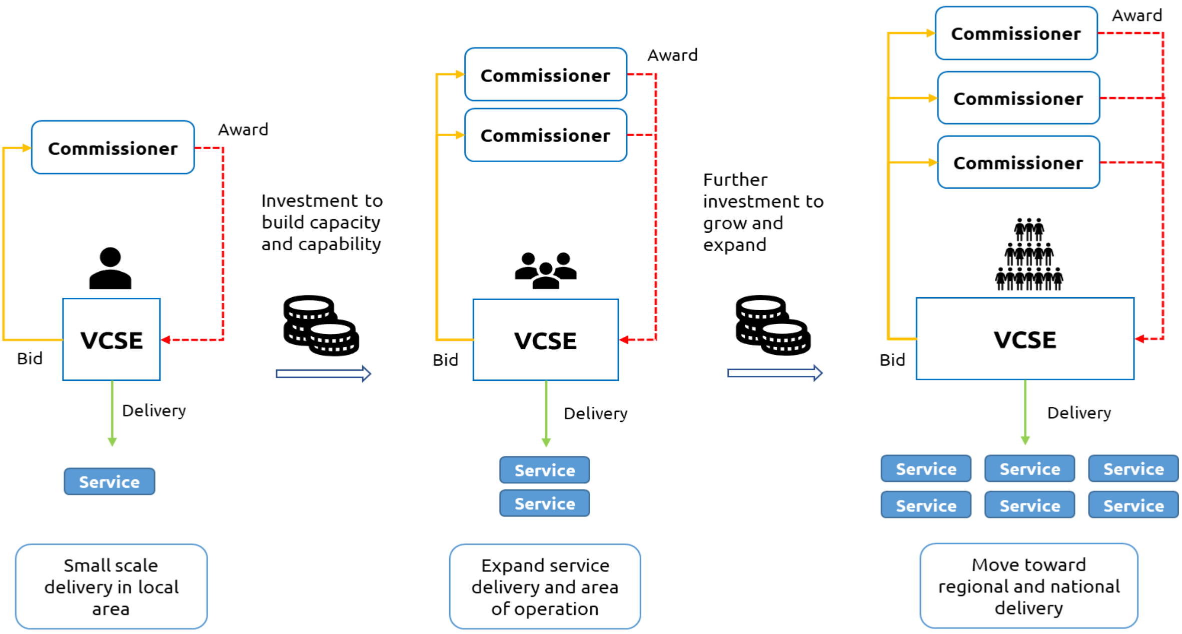
Three models for developing contracting capability in the social economy:

From our experience, there are three models that have been shown to be successful in supporting the social economy at scale – each of these represent creative ways that charities and social enterprises can respond to the changing (and shrinking) commissioning landscape.

1. Pure Growth Model

This is where an organisation takes on investment as part of a growth strategy. This would build capacity and capability, enabling the organisation to grow by taking on more/larger contracts and expanding their range of services regionally or nationally.

A Futurebuilders investee that fits this pure growth model is P3: they took on a straightforward blended loan that enabled them to strengthen core capability. This also enabled them to utilise social investment in the future, eventually taking on £1.5m across seven loan agreements through SIB; they subsequently became involved in several social impact bonds. They've noted how social investment supported them to innovate with public service delivery. While this model appears straightforward, it should be pointed out that P3 is somewhat of an outlier in its successful growth trajectory; not many other organisations have been able to replicate this model.

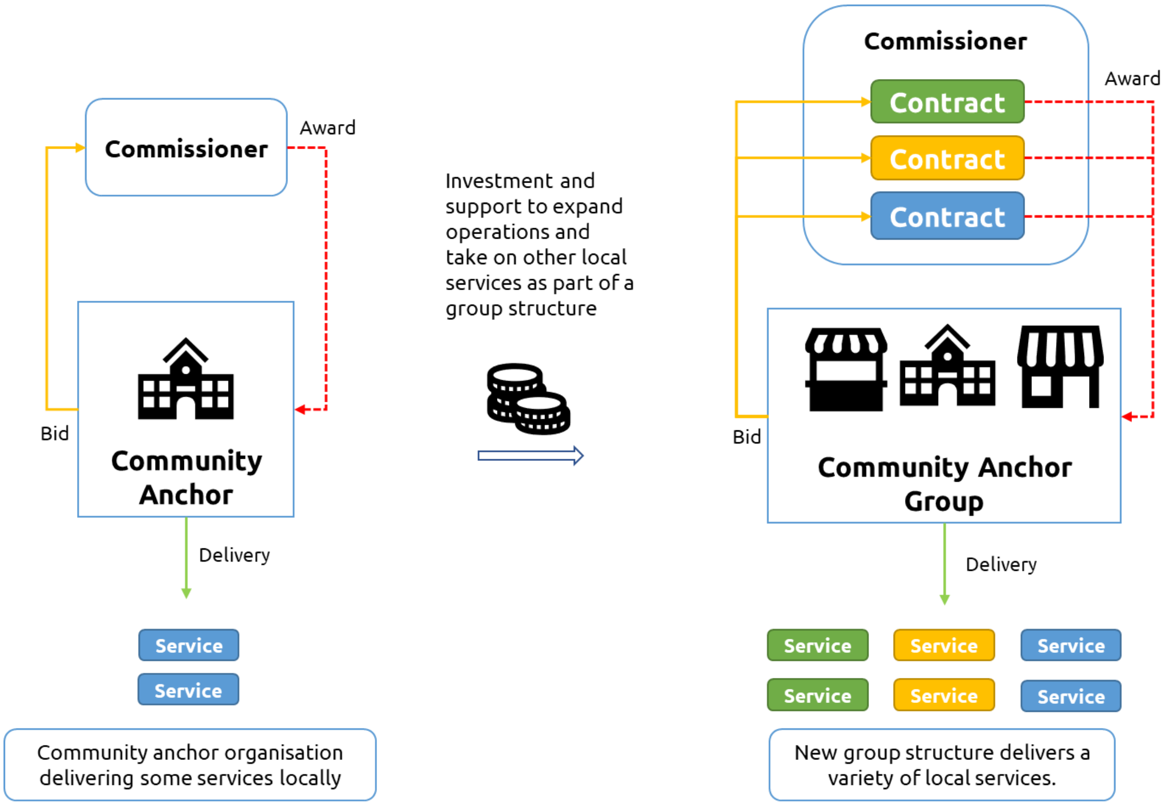


[23] Adebowale Commission on Social Investment, Reclaiming the Future (2022)

2. Consolidation Group Model

This is where a locally rooted organisation starts small, and then expands and diversifies into providing other services within the same area. This model is suited to a community anchor organisation, which might branch out from a single community space into the management of other local services (e.g. health and wellbeing, adult education and training, or social prescribing) to become a group structure. There is clear alignment between the Consolidation Group Model and place-based investment approaches – although it requires an existing community anchor with the capability and capacity to expand within its local area.

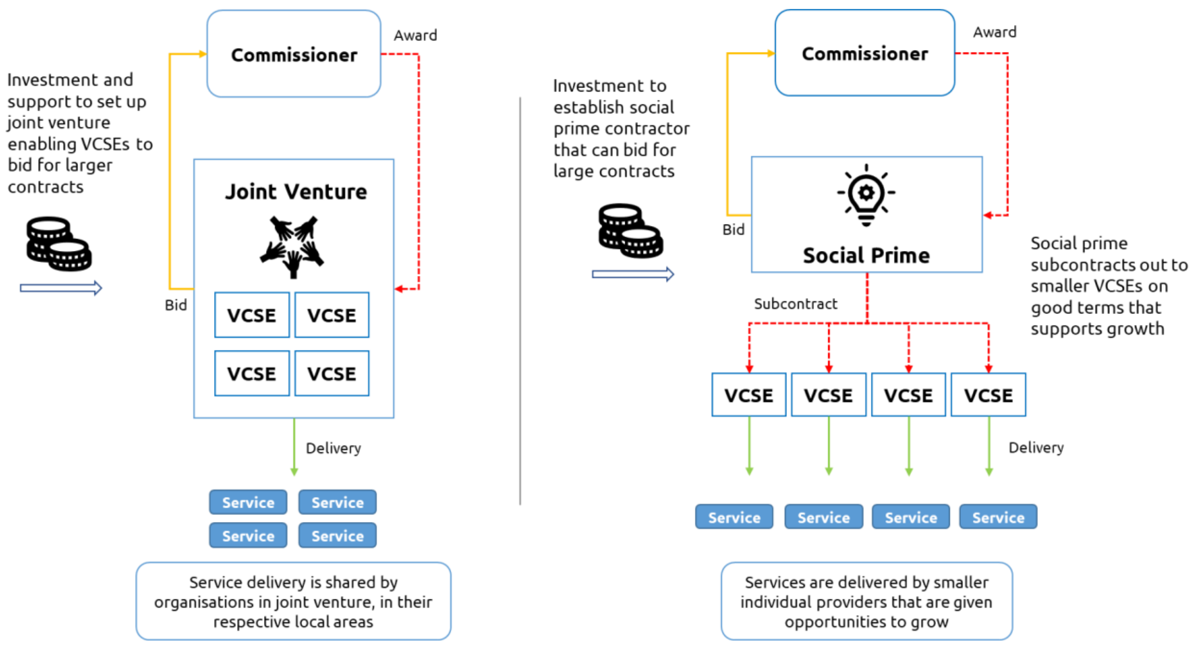
A good example of this kind of model is demonstrated by Alt Valley Community Trust which started in July 1982 with the occupation of Croxteth school to save it from closure. From its beginning in education, Alt Valley has taken on a variety of ventures and services, including running three libraries, three sports centres, three community centres and an education campus. A partner organisation the Neighbourhood Services Company established to work alongside Alt Valley also runs two farms, two pubs, three shopping parades, rental office accommodation and two nurseries.



3. Shared Procurement Approach

This is where a group of charities and/or social enterprises take on investment to establish some joint venture that would bid for and deliver services as a consortium. This could take two forms: one as a 'social prime' model, where a large social enterprise acts as the prime contractor, which then subcontracts out to a supply chain made up of smaller charities and social enterprises; the other would be a more even joint venture, with similar sized organisations pooling resources together to deliver contracts. These models are suited to raising investment at scale, in ways that does not work for smaller organisations. However, it also requires there to be sufficient contracting opportunities available – which is not necessarily the case, as discussed in the previous chapter.

In our interviews, we were given two separate examples that could fall under the shared procurement approach. The Growth Company is a social enterprise that operates as a prime contractor and then outsources those services to smaller organisations down the supply chain. The second is the Health and Wellbeing Partnership, a Limited Liability Partnership comprised of public service spin outs and local charities that enabled organisations to bid more effectively in a 'macro-commissioning' environment – where the LLP would enable the smaller organisations to bid for larger contracts that would be out of reach to each of them individually.

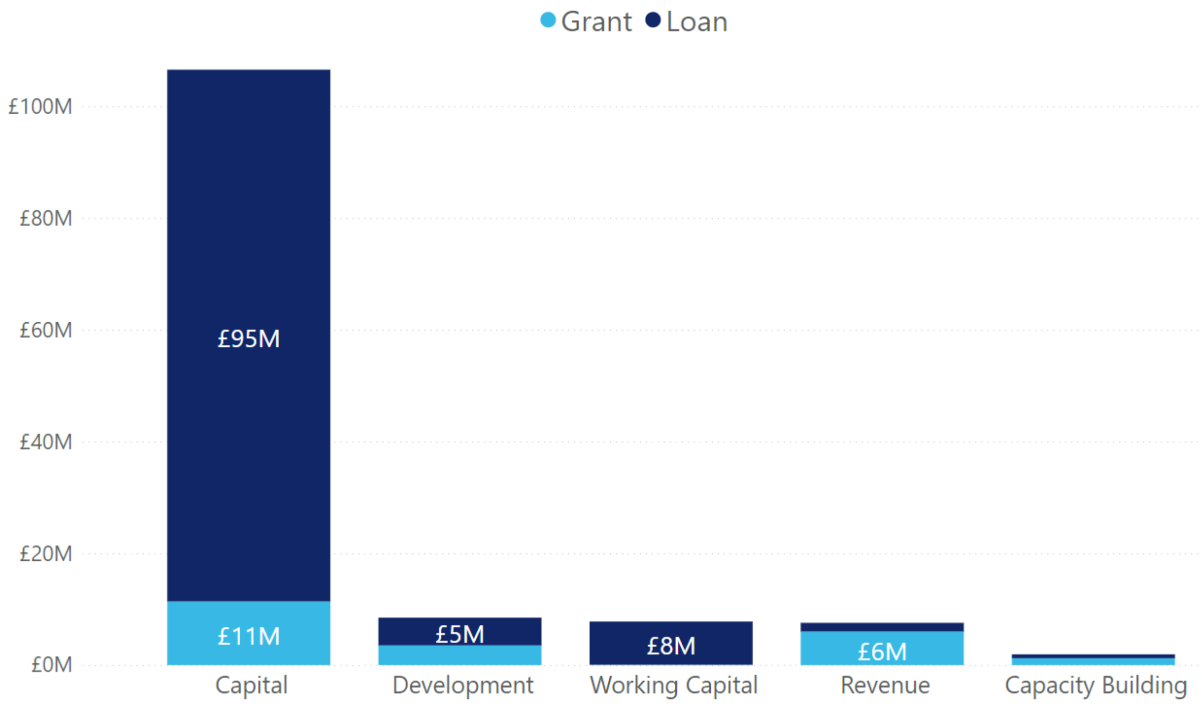


There are two broad strategies for social organisations taking on investment:

1. **Capital investment** into assets to produce savings – e.g. refurbishing a building where the investment is paid off by increased revenue.

2. **Revenue investment** as part of a growth strategy – e.g. hiring new staff and expanding services where the investment is paid off through organisational growth.

Futurebuilders is one of the largest social investment funds we've managed on behalf of Government that focused on supporting social economy organisations to bid for and deliver public services. Our analysis of the Futurebuilders portfolio has found that 80.3% has been capital investment



Source: SIB

This figure is significantly higher than we would have expected, with the assumption that more had gone toward pure growth strategies. Investment into increased contracting capability and capacity only makes up a minority of our portfolio – and this also looks different for organisations of varying sizes. Smaller organisations, in particular, have found it harder to take on investment as part of a pure growth strategy.

The high levels of capital investment are likely to be a reflection of the suboptimal commissioning landscape. Our interviews clearly highlight the longstanding challenges that charities and social enterprises, especially at the smaller end, face in bidding for contracts. It can be hard for smaller entrants to break into the market – particularly when there has been a hollowing out of midsized contracts that support organisational growth.

This is not to say that organisations across our portfolio were not interested in growth – many would have taken on investment for that very reason. Instead, it is that capital investment was seen as a more viable option – i.e. buying a building as part of a cost saving strategy – than investing in capacity to unlock more contracting opportunities.

To take this back to the three models outlined above: this suggests that the Pure Growth Model is a less workable option for social investors looking to support charities and social enterprises operating in public markets – especially in the current commissioning environment which does not support organisational growth. Without significant policy change, there is less scope for achieving this kind of growth strategy through social investment.

The Consolidation Group Model could be usefully deployed as part of a place-based investment strategy. It requires an existing community anchor organisation that is in a position to take on investment and has the knowledge of its local area and strong links to the local community. A good working relationship between the anchor organisation and the local authority would be vital to ensure that this model is successful in the long term – a social investor could play an important role in helping to support and broker this relationship.

The Shared Procurement Approach has potential to raise investment at scale but establishing a 'social prime' or joint venture would require significant amounts of support and planning to set up successfully. Similarly, an element of co-design or close collaboration between the commissioners and the group/supply chain looking to bid for contracts would be necessary to ensure there were sufficient contracting opportunities available to make this model viable.

6. Where next?

We know from the Futurebuilders experience that there are four key ingredients for making social investment work effectively:

1. **Blend**: the use of grant alongside and combined with loan creates a more flexible investment product. Grant blends support more affordable investment offers, providing substantial subsidy for investees. Grant portions can effectively lower the interest rate on loans (the subsidised interest rate for Futurebuilders investees was 2.14%) and higher grant portions can be given to smaller organisations to absorb risk.

2. **Patience:** where loan terms are 10+ years (the average Futurebuilders loan was 14 years). This reduces repayment amounts for investees with time horizons that are more akin to a mortgage than other commercial loans. Longer loan terms kept Futurebuilders default rates lower than expected (17% against a target of 25%) and longer loan terms have corresponded to higher financial returns.

3. **Flexibility**: financial and non-financial variations were applied to over half of Futurebuilders investments, representing the long-term commitment to supporting investees through difficult times. Variations were more likely to be applied to struggling organisations, and this was responsive to changes in the external environment – for Futurebuilders this was apparent during the 2008 financial crash, but similar levels of flexibility were seen during the early months of the Covid-19 pandemic.

4. **Support:** The long-term commitment from a mission-aligned investor is critical to achieving successful outcomes and sustained impact for organisations. The high-touch and flexible relationship management provided by a social investment intermediary contributes to stronger investee loan performance.

Futurebuilders has demonstrated how patient and flexible investment can support the social economy at scale while providing modest financial returns to Government. There are various social economy structures that have achieved growth in the past; and there are creative ways that charities and social enterprises have responded to a changing and shrinking commissioning landscape, and the knock-on constriction in revenue.

Ultimately, none of these models unlock sustainable growth if fundamental issues remain on the procurement side. There is a clear need for closer collaboration between commissioners, investors, and the VCSE providers to co-design a procurement framework that catalyses greater levels of public service delivery through the social economy.

At SIB, we plan to continue with this work to better understand the contribution that social investment can make in supporting the wider social value agenda. Some key questions for further exploration include:

- How can social investment be most effective in driving change at a local level?
- Which models work best in different localities with different market conditions?
- What role could social infrastructure and community assets play in levelling up?

Our intention is to generate more detailed and place-specific models of **what works where** to expand the social economy in public service delivery and drive community change.

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